United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, DC 20510–6075

November 30, 2007

The Honorable Henry M. Paulson
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Paulson,

I read with interest earlier today of your recent effort to promote systematic loan modifications by mortgage servicing companies. Most of the companies with whom you met this week participated in the Homeownership Preservation Summit I convened in April. On May 2nd, many of these loan servicing companies and others who participated in that Summit agreed to a set of principles I proposed to reduce foreclosures.

Just as I have been willing to work with loan servicers and other mortgage market participants to mitigate foreclosures, I make the same offer to work with you so that we can more effectively address this national crisis in the coming months.

At a minimum, it is essential for the Administration to insist that servicers, lenders, and other mortgage market participants immediately undertake efforts to reduce foreclosures consistent with the Summit principles they agreed to on May 2nd. Servicers have been slow to implement these principles, to the detriment of homeowners, communities, and our financial system. While financial markets were resilient and supportive of extending credit to borrowers through mid-summer, the sudden tightening of credit conditions in July and accumulating data regarding home price declines and the deteriorating health of our nation's largest banks in the ensuing months have made the environment for loan modifications more challenging for both borrowers and mortgage servicers. In a study of servicers that cover about 80 percent of the market, Moody's Investor Service found that most servicers had only modified approximately 1% of their serviced loans that experienced a reset in the months of January, April, and July 2007. It is imperative that the Administration ensure that there is no further delay in reaching homeowners in need of loan modifications while they are still capable of sustaining homeownership.

In particular, the Administration should insist on adherence to the following principles from the April summit:

- Early identification of at-risk homeowners
- Broad-based modifications to have systemic impact
- Sustainable modifications to create long-term affordability
- Accountability and transparent standards for measuring progress

As FDIC Chair Sheila Bair has stated, case-by-case workouts may be too time-consuming and ineffective in mitigating the foreclosure crisis facing our nation. A more systematic and proactive approach by servicers is needed. This must include ensuring consumers have mortgages at rates they can afford to pay for the long-term. The objective of modifications should be to make homeownership sustainable, rather than deferring foreclosure to a later date. Finally, the Administration should establish a system by which the public can monitor and measure the progress of loan modifications. Standards for loan modifications should be created and data on loan modifications should be collected on a national basis.

The cost of foreclosure far exceeds the cost to borrowers, servicers, and communities, of preventing foreclosures. In my opinion, the effort to reduce these historic rates of foreclosure to the maximum extent possible is essential to saving the dream of homeownership for our fellow citizens, averting serious repurcussions for the economy, and restoring investor confidence in our mortgage markets and capital markets as a whole.

Sincerely,

Chris Dodd

Christopher J. Dodd